MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Simeon Brown	**Portfolio**	Energy
Title of Cabinet paper	Electricity Government Policy Statement	**Date to be published**	1 November 2024

List of documents that have been proactively released		
Date	**Title**	**Author**
12 September 2024	Electricity Government Policy Statement	Office of Minister for Energy
12 September 2024	Attachment: Proposed Electricity Government Policy Statement	Office of Minister for Energy
23 September 2024	Electricity Government Policy Statement CAB-24-MIN-0373	Cabinet Office

Information redacted **NO**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Office of the Minister for Energy

Cabinet Economic Policy Committee

Electricity Government Policy Statement

Proposal

1 This paper seeks Cabinet's agreement to issue an Electricity Government Policy Statement to the Electricity Authority.

Relation to government priorities

2 A modern, affordable and secure electricity system is fundamental to building a stronger and more productive economy and to reduce net greenhouse gas emissions.

3 As outlined in the Cabinet paper: *Comprehensive response to the current energy security of supply situation*, I was invited to return to the Committee on 11 September for approval to release a Government Policy Statement to the Electricity Authority. [ECO-24-Min-0172]

4 The proposed Government Policy Statement on Electricity will support the Government's key objective of ensuring NZ has globally competitive electricity prices.

5 This Government Policy Statement also supports commitments in the coalition agreement between the National Party and the New Zealand First Party to:

5.1 Double New Zealand's renewable electricity generation to support our Net Zero 2050 target.

5.2 Require the electricity regulator to implement regulations such that there is sufficient electricity infrastructure to ensure security of supply and avoid excessive prices.

5.3 Examine transmission and connection pricing to facilitate cost effective connection of new renewable generation resources.

5.4 Ensure that climate change policies are aligned and do not undermine national energy security.

6 Another coalition commitment - to investigate the threshold at which local lines companies can invest in generation assets - will be addressed in a separate paper the Minister for Resources and I will bring to the Committee in late October 2024.

Executive summary

7 Ensuring New Zealand has an abundant supply of electricity at globally competitive prices is a key objective for this Government. A future with insecure and/or expensive electricity would have direct impacts on the cost of living of New Zealanders and the productivity of our economy. It could also undermine us meeting our net emission reduction targets, if energy consumers do not have the confidence to switch from

fossil fuels to lower emissions electric technologies without reliable and affordable electricity supply.

8 My aim is to mobilise investment and enable innovation by removing barriers, providing certainty and ensuring incentives are aligned across the system. This is necessary and urgent to address the serious challenges to New Zealand's energy affordability and security of supply.

9 I am seeking Cabinet's agreement to issue a statement of government policy which the Electricity Authority (the **Authority**) must have regard to. The purpose is to ensure the Authority is clearly aware of Government policy about the changes needed to electricity market settings to promote competition, innovation and security of supply as the economy electrifies.

10 The statement will also send a clear message to the electricity sector about the role of Government and particularly that market participants need to manage their own supply risks. The sector will not invest at sufficient pace and scale if they think the Government will step in.

11 The role for Government is to ensure the market settings are right, to enable the private sector to invest and enable consumers to take advantage of innovations. This message is consistent with a key message in the consultation document on the Second Emissions Reduction Plan.

12 The attached draft policy statement was prepared with input from electricity regulatory specialists and officials. The Authority was consulted, as required under the Electricity Industry Act 2010.

13 Subject to Cabinet agreement I will transmit the statement to the Authority, notify it in the Gazette, and present it to the House, as required.

Background

New Zealand's energy system is changing

14 Secure, sustainable and affordable energy is fundamental to New Zealand's economic activity and the conduct of much of our daily lives. New Zealand's energy system has served us well to date and our long-term energy outlook is positive. However, new challenges are emerging as our energy system undergoes fundamental change.

15 In particular, demand for electricity is expected to increase significantly by 2050, as:

15.1 Existing energy uses increasingly switch to largely renewable electricity (e.g. transport switches from petrol and diesel vehicles, and industry switches from coal and gas heat sources).

15.2 New uses and industries emerge in the future, including to take advantage of New Zealand's abundant renewable electricity (e.g. data centres and production of green hydrogen or sustainable aviation fuels).

16 Meeting this demand will require a huge increase in investment in generation and networks, running into many tens of billions of dollars. *Electrify NZ* is this Government's plan to cut red tape to enable New Zealand to double its supply of

renewable energy, and will be a key part of the Government's Second Emissions Reduction Plan.

17 Conversely, use of fossil fuels for electricity generation is declining. Amongst other things, this is driven by the competitive cost of renewable electricity generation and the Emissions Trading Scheme (ETS) shaping investment decisions. Capital is also increasingly focussed only on low emissions investment.

The significant changes underway in our electricity system bring new challenges.

18 Most of the new renewable electricity generation is expected to come from intermittent wind and solar generation. To keep the lights on as we shift to more renewable generation, we also need more generation that runs when it's not windy or the sun isn't shining, as well as energy stored for when our lakes are low. Fossil fuels are expected to continue playing this critical role for the time being, albeit contributing a smaller proportion of total electricity supply than they have in the past.

19 The Minister of Resources and I have separately advised Cabinet about immediate issues with gas security of supply resulting from falling domestic gas production. The uncertainty about future gas supply is also a challenge for investment in gas-fired generation capacity that could provide firm backup for intermittent wind and solar, and variable hydro generation. We have also advised Cabinet of our comprehensive response to the current security of supply situation [ECO-24-MIN-0172 refers].

20 Electricity bills are also increasing. A typical monthly household power bill is currently expected to increase by about $15, excluding GST, from April 2025 when new regulated price-quality paths for transmission and distribution infrastructure take effect. This increase reflects higher interest rates, cost inflation and capital expenditure needed to replace ageing infrastructure and meet demand growth. Recent inflation in wholesale electricity costs is also expected to be passed to household and business power bills.

21 A future with insecure and/or expensive electricity would have direct impacts on the cost of living of New Zealanders and the productivity of our economy. It would also undermine us meeting our emission reduction targets since end users would not have the confidence to switch to electric technologies without reliable, affordable electricity supply.

Strategy for affordable and secure energy supply

22 To promote affordable and secure electricity supply we need well-functioning and competitive wholesale and retail electricity markets.

23 My approach is to remove barriers, provide certainty and ensure incentives are aligned across the system.

We need to clarify the role of government

24 This Government is already addressing the considerable investment uncertainty resulting from the ban on offshore gas exploration, the investigation of a pumped-hydro scheme at Lake Onslow, and the aspirational target of achieving 100 per cent renewable electricity supply by 2030.

25 As already signalled in the Second Emissions Reduction Plan consultation document, the role of government, including the specialist regulators, is to is to provide the regulatory certainty and a credible, level playing field to enable private investment and to enable consumers to take advantage of innovations in energy supply. We need to mobilise private capital and individual decisions, with the government focussed on removing barriers and addressing market failures.

We need to update electricity wholesale market settings

26 The wholesale market needs updating to ensure it can efficiently coordinate many more participants and resources. It will need to support an increasingly diverse generation portfolio, a growing proportion of intermittent generation while maintaining security of supply, greater need for and use of energy storage, and increasing role for demand-side management and distributed generation.

We need to strengthen transmission and distribution networks

27 Electrification of the economy will require significant investment in transmission and distribution networks. Efficient network pricing is essential to avoid or defer the need for investment in additional capacity and to promote efficient investment in new forms of electricity consumption – like electric vehicles, data centres and industrial heat.

We need effective competition

28 Effective competition is also essential for sustained downward pressure on power bills. This means any market power must be adequately constrained, and rival resources, technologies and business models (including from potential new players in the market) must be able to compete on a level playing field to deliver services at lower cost and/or higher quality.

A review of electricity market performance has been signalled

29 The Minister of Resources and I will to report back to the Committee by the end of September 2024 for approval to establish a review of electricity market performance [ECO-24-MIN-0172]. It is critical that electricity regulation helps rather than hinders good market performance, and a review will provide assurance that electricity regulation is fit for that purpose.

30 In the meantime, there is value in clearly communicating what the Government expects of the regulator and the industry.

Statement of government policy to the Electricity Authority

31 I want to send a clear message to the Authority and the electricity sector about the Government's objectives for our electricity system and the role of government. My aim is to ensure the Authority is aware of the Government's policy regarding the important changes needed to electricity market settings to promote competition and security of supply as the economy electrifies.

32 I also want to send a clear message to the electricity sector about the role of government and particularly that market participants need to manage their own supply risks. The sector will not invest at sufficient pace and scale if they think the government will step in.

33 The Electricity Industry Act 2010 (the Act) provides a vehicle for issuing statements of government policy. In particular, it requires the Authority to have regard to any statements of government policy concerning the electricity industry that are issued by the Minister.

34 I am seeking Cabinet's agreement to issue such a statement of government policy under the Act. Annex One sets out my proposed government policy statement. It includes the following key points:

34.1 The main factors driving change in the electricity system, in particular the major increase in demand in the coming decades, what this means in terms of required investment, and the role of Government.

34.2 The changes in the electricity system likely to be caused by electrification – for example the growing share of supply from intermittent renewable sources – and the resulting need for the wholesale electricity market to meet these challenges.

34.3 The importance of efficient transmission and distribution pricing to avoid unnecessary cost increases for consumers.

34.4 That electricity market participants are responsible for managing their own supply risks.

34.5 That market arrangements facilitate competition as an essential input to delivering electricity at lowest possible cost to consumers. This includes consumers receiving value from utilising distributed energy resources and demand-side flexibility.

35 If we get it right, New Zealand will have:

35.1 a productive economy powered by renewable energy, with a comparative advantage

35.2 a secure energy system with thermal fuels being used to firm an increasingly renewable electricity system.

35.3 a smart system that gives New Zealanders new ways to save on bills.

36 If we get it wrong, energy costs will rise and stay high, the lights could go out, industries will leave, and New Zealand will pay 'over the odds' for transitioning to the future energy system.

Cost-of-living implications

37 The proposal in this paper aims to mitigate the impacts of rising electricity prices.

Financial Implications

38 There are no financial implications associated with this paper.

Legislative Implications

39 There are no legislative implications resulting from this paper.

Impact Analysis

40 The impact analysis requirements do not apply to this paper as it is not advancing regulatory changes.

Population Implications

41 The proposal in this paper aims to address the risk of insecure and/or expensive electricity which would have impacts on different population groups. For example, people on lower incomes are least likely to afford technological innovations or upgrades to their homes that could offset rising costs. Renters generally experience greater energy hardship than owner-occupiers and are least well-placed to avail of energy efficient measures and emerging technologies, including electric vehicles.

Human Rights

42 There are no human rights implications arising from this paper.

Use of External Resources

43 No external resources have contributed to this Cabinet paper. The Government Policy Statement was drafted with input from consultants specialising in electricity market regulation, at my request.

Consultation

44 The Electricity Authority has been consulted on the draft Government Policy Statement, as required under section 17(2) of the Electricity Industry Act 2010.

45 This paper was prepared by the Ministry of Business, Innovation and Employment. The Treasury, and Ministry for the Environment were consulted. The Department of Prime Minister and Cabinet was informed.

Communications

46 I intend to issue a press release and publicly announce the Government Policy Statement. It will be notified in the Gazette, presented to the House of Representatives, and published on the Ministry of Business, Innovation and Employment's website.

Proactive Release

47 I intend to proactively release this paper, subject to necessary redactions, within 30 business days of decisions being confirmed by Cabinet.

Recommendations

The Minister for Energy recommends that the Committee:

1 **Note** that ensuring secure and low cost electricity is crucial to growing the economy, meeting our emission reduction goals, and maintaining our standard of living.

2 **Note** my strategy to promote electricity security and affordability includes:

2.1 updating electricity wholesale market settings

2.2 strengthening transmission and distribution networks

2.3 ensuring effective competition, and

2.4 clarifying the role of Government.

3 **Note** my proposed statement of Government policy under section 17 of the Electricity Industry Act 2010, which aims to send a clear message to the Electricity Authority and the electricity sector about the Government's objectives for our electricity system and the role for Government.

4 **Note** I have consulted with the Electricity Authority on the draft statement of Government policy as required under section 17(2) of the Electricity Industry Act 2010.

5 **Agree** to the Minister for Energy issuing the statement of Government policy to the Electricity Authority, subject to any minor editorial or technical changes.

6 **Note** the statement of Government policy will be conveyed to the Electricity Authority in writing, notified in the Gazette, presented to the House of Representatives and made publicly available.

Authorised for lodgement

Hon Simeon Brown

Minister for Energy

Annex One: Proposed Electricity Government Policy Statement

[Date]

Statement of Government Policy to the Electricity Authority
under section 17 of the Electricity Industry Act 2010:

New Zealand electricity industry

I hereby transmit to the Electricity Authority and wholesale electricity market participants a statement of Government policy in relation to the electricity industry in New Zealand, with particular focus on updating the wholesale electricity market and security of supply.

What we want from our electricity system

1. An efficient electricity system is vital for a competitive, growing economy, environmental sustainability, and social well-being. In particular, New Zealand should have abundant and affordable energy at internationally competitive prices.

2. The Government therefore expects the electricity system to deliver reliable electricity at lowest possible cost to consumers. It should serve the interests of all electricity consumers, including through the provision of sufficient electricity infrastructure to ensure security of supply and avoid excessive prices.

3. This is best achieved by:

    a) An efficient wholesale electricity market[1] with many different wholesale buyers and sellers of electricity, managing their own risks, responding to competitive pressures and accurate price signals, continually looking for ways to serve their current and potential customers more effectively than their competitors;

    b) Efficient transmission and distribution networks; and

    c) Effectively competitive[2] markets for electricity retail services.

Electrifying the economy

4. Over the coming 30 years, electrification of transport and process heating across the economy, combined with underlying growth, is expected to result in a major increase in demand for electricity.[3]

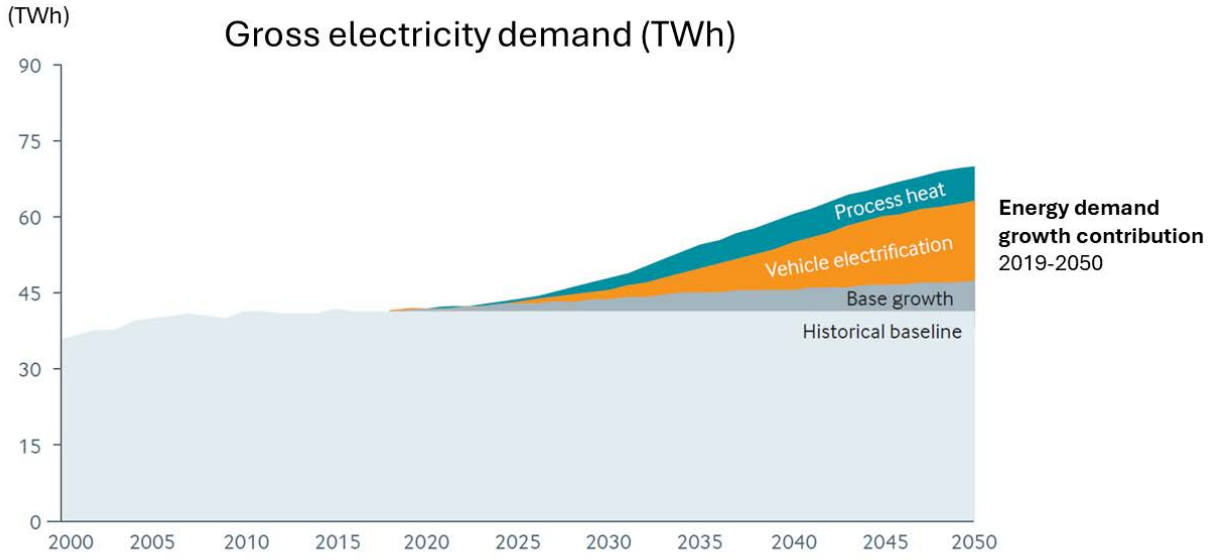
5. To meet this huge increase in demand, New Zealand's renewable generation is expected to double, and this will be a major contributor to achieving our Net Zero 2050

[1] Which has three limbs: (i) the spot market; (ii) the hedge (or contracts) market; and (iii) and the ancillary services market. The wholesale market's core objective is to ensure that, in any interval of time (short, medium or longer term), demand for electricity is reliably met from the lowest cost sources of supply, recognising security constraints on the network.

[2] This refers to "workable competition" which is "a market framework in which the presence of other participants (or the existence of potential new entrants) is sufficient to ensure that each participant is constrained to act efficiently" – as explained in *Wellington International Airport Ltd and others v Commerce Commission* [2013] NZHC 3289 at [26] citing precedent authorities.

[3] Transpower's base case estimate is 68% above current levels of demand. A range of factors could mean that increase in demand is even higher. See also MBIE's *Electricity Demand and Generation Scenarios: Results Summary*, July 2024. Electricity is expected to become a much larger proportion of New Zealand's total energy requirement, up from around 25% in 2020 to around 60% in 2050. Households are likely to use less energy but much more electricity.

target.



Source: Transpower, Whakamana I Te Mauri Hiko, March 2020, Figure 3 abstracted

5. Meeting this increased demand will require a huge increase in investment in new generation and related services[4] – running into many tens of billions of dollars. This investment must be efficient to deliver reliable electricity supply at lowest possible cost to consumers.

6. Technology advances are making it easier for new players (including households) to provide generation, energy storage or demand response services. It is important that our system promotes innovation across the system for the benefit of consumers.

7. This innovation and investment efficiency is best achieved by a diversity of parties competing to bring to market solutions that meet consumer demand.

8. The Government's role is to ensure clear and consistent regulatory settings, reflected in market rules with robust compliance monitoring and enforcement, that enable an efficient market anchored by accurate price signals[5], and effective risk management tools and competition.

9. The Government's role is also to avoid policy decisions that would have the effect of chilling or crowding out private investment.

[4] Which includes upgrading the transmission and distribution networks.

[5] Recognising that accurate pricing means the lowest cost source offered to meet the next increment of electricity demand for any interval of time, from real time to the next half hour, day, week, season, year and beyond. The lowest cost source may be demand-side response.

Update the wholesale electricity market

10. As outlined in recent key reports:[6]

    a) The country's generation portfolio is becoming progressively more diverse with a growing share of supply from intermittent renewable sources, such as solar and wind, from a wider spread of locations.

    b) Electricity supply to and from distributed sources – like electric vehicles and fixed storage batteries –- is becoming more significant.[7]

    c) With increased intermittency in supply, hydro generation with storage will become more important in smoothing out electricity supply in periods when wind and solar are low.[8]

    d) Demand-side response and other sources of flexible supply (such as batteries and thermal generation) will become more valuable, particularly in managing demand peaks and periods when short-term capacity is tight.[9]

    e) The spot market will also need to coordinate many more participants and resources.

11. These changes in the physical characteristics of our electricity system are expected in the coming years as electricity demand grows.

12. The wholesale market must be updated[10] without delay to meet these challenges.

Strengthen transmission and distribution networks

13. Electrification of the economy will require significant investment in strengthening transmission and distribution networks.[11] It is critical that this investment is economically efficient, which means (among other thing) that it reflects demand and optimises new capacity in a manner that avoids unnecessary cost increases for consumers, while ensuring network reliability.

14. Efficient network pricing is essential:

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[6] As outlined in the report dated 11 December 2023 of the Electricity Authority's Market Development Advisory Group ("MDAG's report"); and also in Transpower's report of March 2020, *Whakamana i Te Mauri Hiko - Empowering our Energy Future*.

[7] For example, in balancing intermittent generation and meeting demand peaks, which is also a function of hydro storage, demand-side response and other source of flexible supply.

[8] Hydro generation with storage is also likely to operate differently if there is less thermal generation to refill its hydro storage, as explained in MDAG's report at paras 4.13-4.18.

[9] The importance of flexible supply and demand is highlighted in MDAG's report at paras 4.33-4.40, with particular focus in paras 7.42-7.46 and Appendix A on the measures required to 'activate' demand-side flexibility in the wholesale market. Like generation, demand-side flexibility is an important resource for matching supply and demand. It is also a tool for managing price risk. If demand-side response is available in the market at a lower price, it should displace generation as the preferred source for meeting additional demand.

[10] This means implementing the integrated package of measures set out in chapter 9 of MDAG's report, which the Electricity Authority has endorsed.

[11] Boston Consulting Group estimates that $22 billion is required in the 2020s to enable electrification and integrate distributed energy resources. This is a 30% increase in total expenditure in 2026–30 relative to 2021–25 [see *The Future is Electric - A Decarbonisation Roadmap for New Zealand's Electricity Sector* (2022) at page 180(g)]. In relation to the transmission network, phase one (to 2035) of Transpower's grid upgrade plans provides for around $400m of investment in the existing grid backbone, which was approved by the Commerce Commission in February 2024.

a) To find the lowest cost solution, which may include demand-side response and flexibility to avoid or defer the need for network capacity augmentation; and

b) For connections to enable efficient investment in new electricity consumption, including electrifying transport and process heat in industry.

15. As provided for under current arrangements:

a) The Electricity Authority is responsible for setting principles (and regulating if warranted) for transmission and distribution pricing structures.

b) The Commerce Commission is responsible for setting price and quality controls[12] for Transpower and distribution businesses that are not classified as consumer-owned.[13]

Reliability and security of supply[14]

16. Reliability requires enough investment in power stations, storage devices and demand-side response capability to meet today's needs, as well as tomorrow's expected needs. This includes a reasonable buffer to insure against variability in hydro, wind and solar generation and failures in plant or networks.[15]

17. Clarity of incentives and accurate prices signals in the wholesale electricity market are critical to achieving efficient reliability and security of supply.

18. Individual wholesale market participants are responsible for managing their own supply risks in response to efficient price signals.

19. This recognises that individual wholesale parties are best placed to understand the risks they face and how best to 'insure' against those risks for their particular circumstances.

20. It is therefore important:

a) For each wholesale buyer and seller of electricity to have in place risk management arrangements (such as contract cover and demand-side response, among other measures[16]) appropriate to its wholesale market risk position; and

b) For wholesale buyers and sellers to regularly sign off on their company's risk management position.[17]

21. Neither the Government nor the Electricity Authority nor the System Operator will step in to insulate wholesale market participants from risk or to protect them from their failure to manage their own energy supply risks. To do so would only increase the risk of

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[12] Which restricts the maximum revenue these businesses can earn or the maximum average prices they can charge and require them to deliver services at a quality that consumers would expect.
[13] See this map of entities subject to price-quality controls. Electricity distribution businesses classified as 'consumer-owned' are exempt from price-quality regulation but subject information disclosure requirements.
[14] "Reliability" means having adequate generation and demand response to continuously meet consumers' demand for electricity. This covers all timeframes – next half hour, hour, day, week, season, year and beyond. "Security" means tolerating a disturbance (such as loss of a major generator or transmission circuit) and still maintaining electricity supply to consumers. "Security" is a necessary, but not sufficient, condition for "reliability".
[15] The transmission and distribution networks must also be capable of handling heavier loads when consumers need more power – *Electricity Price Review – Hikohiko Te Uira – First Report for Discussion,* New Zealand Government, 30 August 2018 at page 12, 5th para.
[16] Depending on the wholesale buyer or seller involved, the range of risk management mechanisms may also include changing generation levels, retail market exposure and/or electricity consumption.
[17] With the enhanced 'stress test' recommended in MDAG's report at Recommendation 7 and Appendix C.

shortage. Such interventions can cause a vicious circle because they can undermine incentives on market participants to manage their own risks properly, chilling hedging and new investment leading to increased scarcity, more periods of high prices and reduced security.

22. The Electricity Authority has an important role in:

    a) Ensuring that all information relevant to the supply and demand outlook (including risks)[18] is up to date, comprehensive, collated and presented in an integrated manner readily accessible to all stakeholders[19];

    b) Ensuring that spot price signals accurately reflect the supply and demand balance, recognising that efficient spot prices in periods of extremely tight supply will be very high;[20] and

    c) Facilitating improved forward price discovery, particularly in relation to flexible supply to cover periods of low wind, sun and/or hydro inflows;[21] and

    d) Ensuring that clear and comprehensive guiding principles and impartial procedures are in place for the System Operator to follow in power system emergencies, including any public calls for electricity conservation or reduced consumption.

23. In accordance with market rules and arrangements, the System Operator is –

    a) Not responsible for ensuring the adequacy of offers to meet demand, but rather –

    b) To efficiently coordinate the utilisation of electricity generation and demand-side offers that have been made available in the wholesale market by market participants in response to spot price signals.

24. This decentralised approach to risk management is the best way to deliver the level of reliability that consumers want at the lowest possible cost to consumers.[22]

[18] Covering short to medium to longer term horizons.
[19] Noting that the integration of this information in a readily accessible form needs to be improved. This information underpins an efficient wholesale market, including how the market responds to high price risks and new investment opportunities
[20] At the wholesale level, and it is these high prices (and the belief among market participants that these will occur) that induces efficient contracting, demand response, and investment in flexible supply and demand, including fast-start peaking generation.
[21] As highlighted in MDAG's report, improving price discovery for flexibility products is foundational for the wider wholesale market in growing a high renewables system. Recommendation 8, as detailed in Appendix B of MDAG's report, is a key measure to this end.
[22] Particularly in a renewables-based system. By contrast, a centralised approach tends over time to have higher costs, less timely (and over) investment, and a less innovative and less diverse menu of risk management options.

Spot price volatility

25. The Government recognises that:

    a) As electricity generation becomes increasingly dependent on the weather (sun, wind and hydro inflows), spot prices in the wholesale electricity market will become more volatile;

    b) Spot prices should signal real changes in the cost (value) of producing (or storing) another unit of electricity to meet demand as physical conditions change; and

    c) Suppressing spot price volatility by artificial means would undermine incentives for participants to invest in flexible generation, energy storage and demand response solutions, and therefore increase risks to security.

26. The Government would like to see better periodic public information to improve stakeholders' understanding as to why this increased volatility is occurring and what to expect in general terms.[23] Broadening understanding is important for public confidence in the system.

Demand-side flexibility

27. Demand-side flexibility ('DSF') is where consumers shift their demand in time or alter their total demand. Like generation, DSF is an important resource for matching supply and demand. It is also a tool for managing price risk. If demand-side response is available in the market at a lower price, it should displace generation as the preferred source for meeting additional demand.

28. Efficient DSF will deliver benefits for both consumers (lower bills) and for the system as a whole (more resilience).[24]

Competition

29. Effective competition is essential for our electricity system to deliver reliable electricity at lowest possible cost to consumers. Among other things, in a market with effective competition:

    a) Competition is not distorted by the misuse of market power;[25]

    b) The market clearly signals the expected cost of meeting the next increment of demand in any interval of time;[26]

    c) Market participants (existing and new, demand-side and supply-side) compete to find the solutions that are better than their competitors to meet the next increment of demand;[27]

[23] See in particular Recommendation 15 in MDAG's report.
[24] A comprehensive package of measures to better activate DSF in the wholesale market is described in Appendix A of MDAG's report.
[25] Misuse of market power is where the exercise of market power would have a net adverse impact on economic efficiency. This is also known as the exercise of significant market power.
[26] Whether in the present or looking forward a half hour, day, week, season, year or beyond.
[27] In any interval of time.

d) Competitive new entry and competing business models[28] tends to spur innovation delivering benefits for consumers over time;

e) The rules of the market do not favour one technology or solution over any other;[29]

f) This results in sustained downward pressure on costs and prices, and prices reflect their efficient level to the benefit of all consumers;[30] and

g) Household and business consumers can make meaningful choices between competing suppliers and technologies, and benefit from the opportunities available in the electricity system. This includes the benefits that consumers may gain from providing demand-side flexibility.

30. As part of its obligation to promote competition, the Electricity Authority should ensure that market arrangements facilitate this competition, including in relation to flexible supply.[31]

Related key policy elements

31. The Electricity Authority should be aware that:

a) The Government intends to ensure that resource consenting processes for generation, energy storage and network infrastructure enable the timely and efficient build of new infrastructure.[32]

b) Fuel sector arrangements have a critical influence on electricity generation costs and reliability. The Government's policy frameworks for both fossil and green fuels recognise the critical role these fuels play in the electricity sector.

c) Carbon pricing rules[33] are the primary tool to drive decarbonisation decisions within the electricity system and most sectors of the wider economy. To the extent that thermal generation (including applicable carbon charges) is lower cost than renewable alternatives, it will continue to be selected for use by the wholesale market.

d) It is not the Electricity Authority's role to prefer one form of supply over any other.

e) The Government is considering the thresholds at which electricity distribution businesses can invest in generation assets.

[28] Including but not limited to vertically integrated and non-vertically generators, retailers and flexibility service providers.
[29] Whether grid-scale or distributed resources (demand response, storage or generation), and whether existing technology or a new innovation.
[30] It is these prices that accurately signal supply and demand conditions. The Government expects to see effective competition in the generation and retail sectors, recognising that the other checks on prices are required in the transmission and distribution sectors (as noted in paras 14 – 16 above).
[31] Which is highlighted as an area of potential concern in MDAG's report in Appendix D.
[32] Resource management policy is the subject of wider action by the Government.
[33] In particular, the Emissions Trading Scheme

f) The Government is progressing the Customer and Product Data Bill ('the Bill') and intends to apply its provisions to the electricity sector.[34] The Bill is intended to drive market competition and affordability by giving consumers greater access to their own data to make informed decisions and helps businesses provide the best option for consumers. The Electricity Authority is aligning its own data work programme, which is looking to achieve similar outcomes.

General

32. The Electricity Authority is expected to work collaboratively with other agencies across the wider regulatory regime, acknowledging the scope of each agency's remit.

33. Section 17 of the Electricity Industry Act 2010 provides that the Electricity Authority is required to "have regard to" this statement of government policy.

[34] The Customer and Product Data Bill is intended to drive market competition and affordability by giving consumers greater access to their own data to make informed decisions and helps businesses provide the best option for consumers.